



RECEIVED

2009 AUG 24 P 4: 13

August 24, 2009

POSTAL REGULATORY
COMMISSION
OFFICE OF THE SECRETARY

Hon. Judith M. Grady, Acting Secretary
Postal Regulatory Commission
901 New York Avenue NW, Suite 200
Washington, D.C. 20268-0001

Dear Ms. Grady:

In connection with the Commission's rules pertaining to periodic reports, 39 C.F.R. § 3050 (2009), I have enclosed copies of the following:

- (1) National Trial Balance, June, 2009 (FY 2009); and
- (2) Statement of Revenue and Expenses, June, 2009 (FY 2009).

These reports are being provided for public disclosure in redacted form. Most of the information has been disclosed; however, the values in a small percentage of accounts have been deleted. Pursuant to 39 C.F.R. § 3007.21, I have enclosed as Attachment 1, "Application of the United States Postal Service for Non-Public Treatment of Materials," which describes the information withheld and presents the justification for withholding the deleted materials. I have also enclosed complete, unredacted versions of these reports, which the Postal Service is submitting under seal. The unredacted versions should not be posted on the internet. Both the redacted, public versions and the unredacted, non-public versions of the reports are being provided in electronic form on computer disks.

Sincerely,

Daniel J. Foucheaux, Jr.
Chief Counsel, Pricing and Product
Support

Enclosures

cc: Ms. Taylor

ATTACHMENT 1

RECEIVED

APPLICATION OF THE UNITED STATES POSTAL SERVICE FOR NON-PUBLIC
TREATMENT OF MATERIALS

In accordance with 39 C.F.R. § 3007.21 and Order No. 225,¹ the United States Postal Service (Postal Service) hereby applies for non-public treatment of certain materials filed with the Commission on a monthly basis, pursuant to section 3050.28 (Monthly and Pay Period Reports) of the Commission's Periodic Reporting Rules. The materials pertain to the National Consolidated Trial Balances (NTB) and the Revenue and Expense Summary (RES). The Postal Service applies to provide complete copies of the NTB and the RES under seal, and additionally to file public versions of the NTB and the RES from which values for certain accounts have been redacted. (The RES contains a subset of the rows appearing in the NTB, and while each row presents the same Year To Date (YTD) information, the rows are simply aggregated in different formats in the two reports.) The Postal Service applies to follow this procedure each month at the time when the NTB and RES are submitted.

The Postal Service hereby furnishes the justification required for this application by 39 C.F.R. § 3007.21(c) below.

(1) The rationale for claiming that the materials are non-public, including the specific statutory basis for the claim, and a statement justifying application of the provision(s);

The materials designated as non-public, as described below, consist of information of a commercial nature, which under good business practice would not be publicly disclosed. The Postal Service submits that it is well-understood that most

¹ PRC Order No. 225, Final Rules Establishing Appropriate Confidentiality Procedures, Docket No. RM2008-1, June 19, 2009.

commercial enterprises do not publish detailed accounting information pertaining to their finances and operations on a monthly basis. Among other reasons, firms do not share such data publicly, because it would provide competitors with detailed cost and revenue information concerning the production, pricing, and marketing of the firms' products. Such information would better enable competitors to establish pricing, marketing, and operating strategies that would divert existing and business and foreclose future business opportunities. In the Postal Service's opinion, this information would be exempt from mandatory disclosure pursuant to 39 U.S.C. § 410(c)(2) (contrary to good business practice) and 5 U.S.C. § 552(b)(3).²

(2) Identification, including name, phone number, and email address for any third-party who is known to have a proprietary interest in the materials, or if such an identification is sensitive, contact information for a Postal Service employee who shall provide notice to that third party;

Not applicable.

(3) A description of the materials claimed to be non-public in a manner that, without revealing the materials at issue, would allow a person to thoroughly evaluate the basis for the claim that they are non-public;

The periodic reporting rules require the Postal Service to file the NTB and the RES on a monthly basis. The Postal Service applies to file complete copies of these materials under seal, with redacted copies filed publicly. The redacted portions of the public versions consist of the values pertaining to a small percentage of the accounts for

² In appropriate circumstances, the Commission may determine the appropriate level of confidentiality to be afforded to such information after weighing the nature and extent of the likely commercial injury to the Postal Service against the public interest in maintaining the financial transparency of a government establishment competing in commercial markets. 39 U.S.C. § 504(g)(3)(A). The Commission has indicated that "likely commercial injury" should be construed broadly to encompass other types of injury, such as harms to privacy, deliberative process, or law enforcement interests. PRC Order No. 194, Second Notice of Proposed Rulemaking to Establish a Procedure for According Appropriate Confidentiality, Docket No. RM2008-1, Mar. 20, 2009, at 11.

which data are provided in the two reports. Approximately 2 percent of the rows are redacted. The rows in question are those that contain information meeting a narrowly defined set of criteria. The first criterion designates accounts directly relating to an identified competitive product, or an identified set of competitive products. The second criterion designates accounts relating to expenditures for advertising.

The Postal Service maintains that monthly amounts relating to these accounts should remain confidential. Since the redactions would only apply to the columns with dollar amounts in them, and the row labels would not be redacted, there should be (within the redacted copy itself) sufficient basis to evaluate the nature of exactly what has been redacted. The structures of the NTB and the RES are simply presentations of account information for thousands of individual accounts – there are no aggregations of any results, and therefore the redaction of any single row, or any subset of rows, has no effect on the balance of the report (i.e., the rows that are not redacted).

(4) Particular identification of the nature and extent of commercial harm alleged and the likelihood of such harm;

If the portions of the NTB and RES that the Postal Service determined to be protected from disclosure due to their commercially sensitive nature were to be disclosed publicly, the Postal Service considers the likelihood of commercial harm to be substantial. Disclosure of competitive product cost information by specific function and account would provide more detailed information about the Postal Service's cost structure than is generally available to the public. Such information could give competitors insights that would allow them to devise better pricing and marketing strategies designed to divert business away from the Postal Service. In the highly

competitive environment that surrounds package transportation and delivery industries, the very existence of this imbalance between what competitors know about the Postal Service's business, and what the Postal Service knows about its competitors, at the level and frequency at which the information in the trial balances are produced, would place the Postal Service at a significant disadvantage in retaining existing customers and seeking opportunities for developing new business.

The proposed expense redactions range from costs for supplies, to advertising, to operating expenses. In each instance, the data, if disclosed, would lead to a better knowledge of Postal Service activities in producing and marketing competitive products and services. Advertising expense would be an indicator of the Postal Service's marketing strategies. Knowledge of supplies expenses could give insights about the change in demand and the types of customers using the service. Operating expenses by specific accounts could delineate trends and magnitudes of specific business activities in much the same way actual revenue data by account could.

Similarly, revenue information contained in the accounts that have been redacted would tend to give competitors valuable information that could be used to assist in diverting current and future business from the Postal Service, and thus would impair the Postal Service's ability to maximize financial returns. The information that has been redacted consists primarily of, either revenues by postage payment method, or advertising expenses. While postage payment methods might appear relatively trivial, such information could assist competitors in analyzing the Postal Service's business by type of customer. For instance, large customers typically use permit imprints. Small to medium sized businesses may use meters or on-line payment systems. Information of

this sort, particularly trends, would help competitors better understand the Postal Service's market strategies by understanding the types of customers the Postal Service is targeting. In a similar vein, advertising data highlight trends and therefore strategies. We note that information highlighting marketing trends, particularly revenues by type of customer and monthly and quarterly advertising expenses are generally not made publicly available in the commercial world.

The frequency and character of the monthly accounting data that has been withheld would enhance its utility for competitors. First, it must be recalled that the NTB and RES will, under the new periodic reporting rules, be filed on a monthly basis. The frequency of reporting is critical for several reasons. For example, compared with annual data, over any given interval of time, monthly data provide many more data points, so that trends are much more readily identifiable. More importantly, because the time lapse between the occurrences of the activity generating the data and the reporting of the data is merely a matter of weeks, competitors could move much more quickly in reacting to the reported data. A strategic reaction implemented immediately is much more likely to benefit the competitor (and correspondingly harm the Postal Service) than one which can only be implemented following the presentation of what are in some sense historic data. In general, therefore, a category of commercially-sensitive information reported on a monthly basis may raise the specter of commercial harm much more substantially than the exact same category of information reported only on an annual basis.

Second, account information in the NTB and RES can provide much more granular data than product-level cost and revenue information. For example, as noted

above, these reports contain accounts which present revenue information for products by channel. They also show accounts which record rebate activity or Negotiated Service Agreement (NSA) activity. For competitive products, these types of accounts intrinsically contain commercially sensitive information.

Advertising, in particular, is a general strategic activity regarding which commercial entities naturally attempt to shield the direction and magnitude of their plans from competitors. Since the purpose of an advertising campaign is to draw public attention to the advertised products, it is neither possible nor useful to conduct advertising entirely in the dark. Yet, allowing competitors access to monthly data on advertising activity would unnecessarily present them with quantifiable information to which they could react immediately. At the very least, it might spare them the expense of conducting their own analyses of postal advertising patterns and strategies. Therefore, all reporting regarding advertising is appropriately redacted from the monthly NTB and RES reports.

(5) At least one specific hypothetical, illustrative example of each alleged harm;

The nature of the competitive marketplace for postal and related services, including international services, makes predicting specific competitive harm difficult. The Postal Service competes, not only against many individual firms in the transportation and package industries, in a diverse range of geographical and commercial markets, but also generally against other forms of communications media. The generalized discussion of harm presented above represents patterns of behavior expected to be encountered, or possible, among many specific competitors. Furthermore, uncertainties regarding how existing and potential adversaries in the

marketplace might use information creatively to gain competitive insights contribute to the conclusion that the potential for harm described above is not exhaustive. In particular, information that is seemingly innocuous standing alone might present a competitive threat when combined with information from other sources that particular competitors might obtain. Sources of such unknown information might include past experience with the Postal Service, long experience in particular markets, or familiarity or contact with specific customers. The combination of such data and information, especially information on trends that might be observed through successive monthly reports, as described above, may subject the Postal Service to harmful diversion of business that might not on the surface be readily apparent.

One hypothetical situation might arise from the disclosure of advertising expense data over time. Suppose the Postal Service embarked on an advertising campaign to attract Corporate Account customers for Express Mail. If the information which the Postal Service is proposing to redact from the NTB and the RES were to be made public, by monitoring that information, competitors might be able to detect the increase in monthly advertising costs, and any increase in monthly Express Mail Corporate Account activity. Competitors could use that information, for example, to evaluate the success of the Postal Service's advertising, and to decide quickly whether to launch their own responsive advertising campaigns targeting the same customers. The consequence might be the successful diversion of existing or future business from the Postal Service, and the consequent loss of revenues.

(6) The extent of protection from public disclosure deemed to be necessary;

The Postal Service maintains that the redacted portions of the materials filed non-publicly should be withheld from persons involved in competitive decision-making in the relevant markets for domestic and international expedited and parcels products (including both private sector integrators and foreign postal administrations), as well as their consultants and attorneys. Additionally, the Postal Service believes that actual or potential customers of the Postal Service who might be negotiating non-tariff rates for competitive products should not be provided access to the non-public materials.

The Commission's regulations provide that non-public materials shall lose non-public status ten years after the date of filing with the Commission, unless the Commission or its authorized representative enters an order extending the duration of that status. 39 C.F.R. § 3007.30. The Postal Service believes that the ten-year period of non-public treatment is sufficient to protect its interests with regard to the NTB and RES monthly information it has determined should be withheld due to commercial sensitivity.

(8) Any other factors or reasons relevant to support the application.

In balancing the Postal Service's need for confidentiality against the public's interest in transparency, the application for non-public treatment of a small portion of monthly accounting data in the NTB and RES should be considered in the context of Postal Service reporting generally. The Postal Service makes available a substantial amount of financial and other information on a monthly and less frequent basis, (quarterly or annual). For example, the Postal Service will provide in its Annual Compliance Report the annual data necessary for the Commission to determine

compliance with the applicable portions of the statute. None of the redactions the Postal Service is proposing for presentation of monthly accounting data would interfere with the Commission's ability to fulfill its statutory obligations in that regard, or the public's ability to submit appropriate comments on that topic. None of the statutory provisions even require evaluation of monthly data. Similarly, the Postal Service's instant application would have no effect on the scope or content of the SEC-type quarterly and annual reports filed in accord with 39 U.S.C. § 3654. Moreover, the Commission has established in section 3050.28(b) the requirement for a Monthly Summary Financial Report. Once again, the redactions proposed by the Postal Service in this application would not have any effect on submission by the Postal Service of a complete Monthly Summary Financial Report, fully available to the public. Given the lack of any role that monthly NTB and RES data play in any structured compliance analysis, and given the wealth of other sources from which truly relevant information can be obtained, the grant of this limited application would appear to have minimal, if any, impact on any interests necessary for fulfillment of statutory obligations.

Conclusion

For the reasons discussed, the Postal Service asks that the Commission grant its application for non-public treatment of the identified materials.